

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 7045**

**BILL NUMBER:** HB 1123

**NOTE PREPARED:** Mar 14, 2012

**BILL AMENDED:** Mar 9, 2012

**SUBJECT:** Public Pensions.

**FIRST AUTHOR:** Rep. Burton

**FIRST SPONSOR:** Sen. Kenley

**BILL STATUS:** Enrolled

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** *Annual Report:* This bill provides that not later than December 1 each year, the Office of Management and Budget shall submit to the State Budget Committee the following: (1) A report prepared by the Office of Management and Budget concerning post-employment benefits and liabilities of state agencies. (2) Reports prepared by state educational institutions concerning post-employment benefits and liabilities of those institutions.

*Trust Funds:* The bill permits trust funds to be established to provide for prefunding annual required contributions to retirement funds and to cover other post-employment benefit liability for employees of the legislative, judicial, and executive departments, including employees of the State Police Department, conservation officers of the Department of Natural Resources, and the State Excise Police.

*Budget Agency Approval:* The bill provides that any modification to: (1) eligibility requirements; (2) required premiums; or (3) any other plan provisions; that increases the amount of the state's contribution to a plan of self-insurance established for the State Police Department, conservation officers of the Department of Natural Resources, or the State Excise Police or that increases the post-employment liability under such a plan may not be made unless the modification is first approved by the Budget Agency. The bill provides for an annual review of the modifications by the State Budget Committee.

*13<sup>TH</sup> Check* The bill provides for a thirteenth check to certain members of the: (1) Indiana State Teachers' Retirement Fund (TRF); (2) Public Employees' Retirement Fund (PERF); (3) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Officers' Retirement Fund (C&E Fund); and (4) State Police 1987 Benefit System. It makes a state General Fund appropriation for the state fiscal year beginning July 1,

2012, to cover the one-time thirteenth check for TRF retirees.

**Effective Date:** June 20, 2012; July 1, 2012.

**Explanation of State Expenditures:** *Annual Report:* The requirement that the Office of Management and Budget submit an annual report on the post-employment benefits and liabilities of state agencies and state educational institutions could be done within the agencies' current resources.

*Trust Funds:* Allowing the creation of trust funds to provide for prefunding annual required contributions to retirement funds and to cover other post-employment benefit liabilities for employees should have no fiscal impact.

*Budget Agency Approval:* State Budget Committee review and Budget Agency approval for certain modifications to the plans of self-insurance for retirees of the State Police Department, conservation officers of the Department of Natural Resources, or the State Excise Police could be done within the agencies' current resources.

*13<sup>th</sup> Check Provisions* - This proposal provides a one-time 13<sup>th</sup> check to eligible PERF, TRF, and C & E fund members who retired or were disabled before December 2, 2011, and are entitled to a monthly benefit as of July 1, 2012. The bill also provides a one-time 13<sup>th</sup> check to members of the State Police fund who retired before July 2, 2011, and are eligible to receive a monthly benefit as of September 1, 2012. The 13<sup>th</sup> check is payable no later than October 1, 2012.

*TRF 13<sup>th</sup> Check* - For the Pre-1996 Fund, there will be a one-time payment of \$18.6 M in FY 2013 resulting in 45,421 retirees, beneficiaries, and survivors belonging to the Pre-1996 Fund receiving a one-time average payment of \$410. Since the Pre-1996 Fund is funded on a pay-as-you-go basis, the annual cost is the increase in the amount of benefits paid each year. The Pre-1996 Fund is paid for through appropriations from the General Fund and payments from the Pension Stabilization Fund.

For the 1996 Fund, 2,554 retirees, beneficiaries, and survivors belonging to the 1996 Fund will receive an average one-time payment of \$392. Total 13<sup>th</sup> check payments for members of the 1996 Fund will total \$1 M. The 1996 Fund is prefunded with an actuarially calculated contribution equal to the benefit accrual cost for the year (the Plan's normal cost) plus a 30-year amortization of the unfunded accrued benefit liability. The 13<sup>th</sup> check would increase the unfunded accrued benefit liability of the 1996 Fund by \$1 M.

The 1996 Fund is prefunded through employer contributions. Contribution rates have already been set for FY 2013. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2014. School corporations contribute a percentage of payroll, currently 7.50%.

The bill appropriates \$19.6 M in FY 2013 from the state General Fund to pay the cost of the 13<sup>th</sup> check for TRF retirees.

*PERF 13<sup>TH</sup> Check* - One-time 13<sup>th</sup> check payments for all PERF retirees, beneficiaries, and survivors would total \$23.7 M in FY 2013 resulting in 70,380 PERF members who would receive an average one-time payment of \$336. The 13<sup>th</sup> check provision would increase the state's portion of PERF's unfunded accrued benefit

liability by around \$8.8 M. PERF is actuarially prefunded through employer contributions, similar to the TRF 1996 fund. Contribution rates have already been set for PERF for FY 2013. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2014. The state currently pays a percentage of payroll, currently 8.6%. The increase would be reflected in contribution rates beginning in FY 2014.

*C & E Fund* - One-time 13<sup>th</sup> check payments for C & E Fund retirees, beneficiaries, and survivors would total \$61,000 in FY 2013 resulting in 176 C & E Fund members who would receive an average one-time payment of \$347. The 13<sup>th</sup> check provision would increase the fund's unfunded accrued benefit liability by \$61,000. The C & E Fund is actuarially prefunded through employer contributions. Contribution rates have already been set for the C & E Fund for FY 2013. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2014. The state currently pays a percentage of payroll, currently 20.75%.

*State Police Fund* - One-time 13<sup>th</sup> check payments for State Police Fund employee beneficiaries would total \$157,500 in FY 2013 resulting in 525 members receiving an average one-time payment of approximately \$300. The 13<sup>th</sup> check provision would increase the fund's unfunded accrued benefit liability by \$157,500. Annual State Police Fund costs would increase by \$12,400. The funded status of the State Police Fund would decrease from 76.8% to 76.7%. Appropriations to the State Police pension fund are made equally from the state General Fund and from the state Motor Vehicle Highway Account.

	<b>Beneficiaries</b>	<b>Average 13<sup>th</sup> Check Amount</b>	<b>Increase in Unfunded Accrued Liability</b>	<b>FY 2013 Increase in Appropriations</b>
TRF Pre-1996 Fund	45,421	\$410	\$18.6 M	\$18.6 M
TRF 1996 Fund	2,554	\$392	\$1.0 M	\$1.0 M
PERF (All)	70,380	\$336	\$23.7 M	
C & E Fund	176	\$347	\$61,000	
State Police Fund	525	\$300	\$157,500	

### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** *PERF* - The provision would increase local units' share of PERF's unfunded accrued benefit liability by around \$15 M. Employer contribution rates have already been set for PERF for FY 2013. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2014. Local units currently pay a percentage of payroll, currently 8.8%.

### **Explanation of Local Revenues:**

**State Agencies Affected:** All.

**Local Agencies Affected:** Those units with members in PERF and school corporations with members in TRF.

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**Definitions:**

Thirteenth Check - A thirteenth check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Unlike a cost-of-living adjustment, the amount of this supplemental retirement allowance does not increase the pension base.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.